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SANGAMO ANNUAL REPORT FOR 1973

Co. Ltd.

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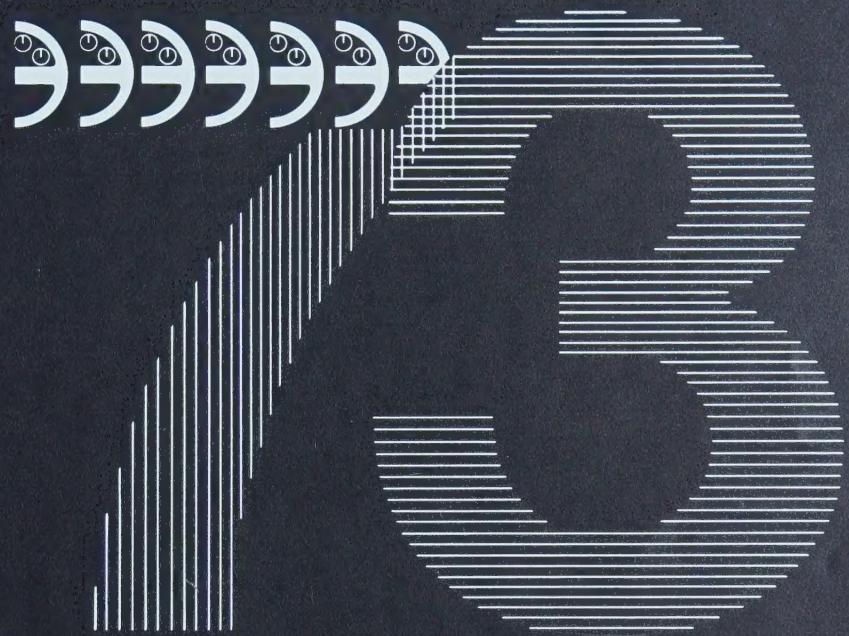
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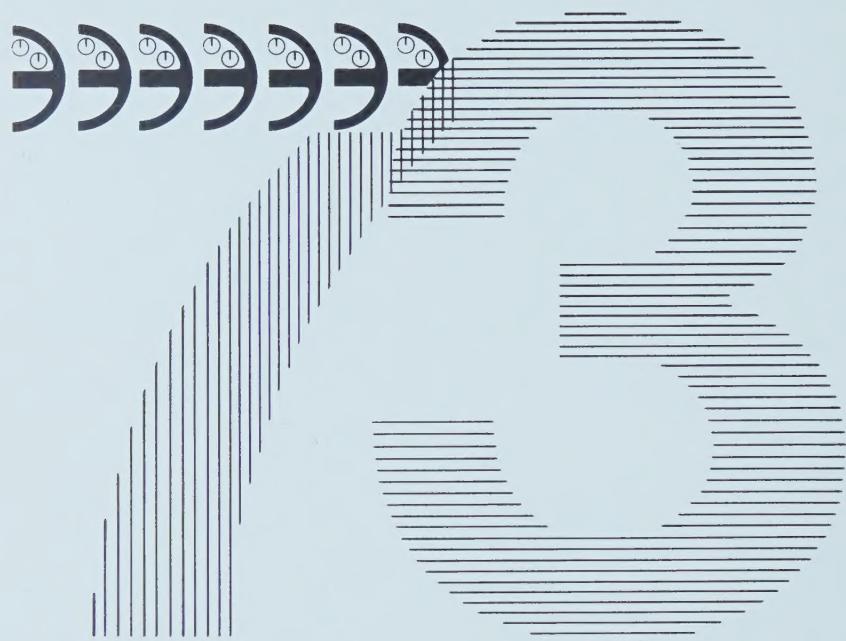


COVER STORY

Moon Shot - Bruce Heavy Water Plant, Ontario Hydro's second Nuclear Power Development, at Douglas Point, on Lake Huron, Ontario.

Approximately 12 percent of Ontario Hydro's present generating capacity is nuclear, it is estimated that by 1980 this will increase to 29 percent and by 1990 about 60 percent of the province's capacity will be nuclear generation.

Of equal importance to all Canadians, is the concern toward improved management of this energy. Sangamo has already shifted its emphasis to include control as well as measurement of electrical energy. The company's current programs are designed to promote better energy management through more efficient and economical utilization of energy.



FINANCIAL HIGHLIGHTS	1973	1972
Net Sales	\$13,966,382	\$11,294,301
Income before Extraordinary Item	1,370,294	886,620
Income Per Share before Extraordinary Item	7.56	4.89
Net Income	1,370,294	923,385
Net Income Per Share	7.56	5.09
Expenditure for buildings, machinery and equipment	452,309	435,837
Depreciation	273,353	241,664
Shareholders' equity	5,986,001	5,068,737
Shares outstanding at end of period	181,212	181,212
Book value per share	33.03	27.97
Working Capital	4,701,377	3,946,471
Current ratio	3.8:1	4.3:1

LETTER TO THE SHAREHOLDERS

Net income amounted to \$1,370,000 in 1973, or \$7.56 per share as compared with \$923,000 and \$5.09 per share in 1972. Net income a year ago included an extraordinary credit related to the disposal of a non operating plant of \$36,000, or \$.20 per share.

Sales in 1973 were \$13,966,000 compared to the \$11,294,000 in 1972. Demand for all lines of manufactured products improved substantially and earnings responded accordingly. A change in the rate structure of several of the major electric utilities resulted in marked increases in the sales of the combination meters. Foreign markets for meter products and the domestic market for vacuum cleaner motors continued growth patterns.

A second generation of the Type K single phase watthour meter was introduced in 1973. The new K meter, with improved quality, has contributed substantially to improved earnings. Earnings were also assisted by the reduction in the 1973 corporate income tax rate.

The Company has developed a pulse energy meter to support more sophisticated metering applications. Pulses collected from watthour meters by tape recorders are later transferred to a computer for rate and load analysis, as well as for customer billing. A new solid state 1680 megacycle weather surveillance radiosonde has been developed

and will be supplied to the Atmospheric Environment Services in production quantities beginning in 1974.

With the ever increasing importance of energy conservation, the Company has shifted its emphasis to include control as well as measurement of electrical energy. An electronic demand control system, manufactured by Gen-Tec Inc., is now marketed by the Company. The Gen-Tec system incorporates sensing and automatic switching devices and can be programmed for optimum utilization of electrical energy. The Company's programme for the promotion of energy management includes additional training of our Sales Engineers and assisting industry in the economic utilization of energy.

Total capital expenditures for equipment and tooling amounted to \$452,000 in 1973 and \$273,000 was provided for depreciation. Capital expenditures were made to ensure continued high quality production standards for the Company's products and to upgrade the quality control and meter test departments. Additional expenditures were made to increase productivity and manufacturing capacity, particularly in the vacuum cleaner motor area.

The Company declared dividends of \$2.50 per share in 1973, consisting of four quarterly dividends of 50¢ each and an extra year-end dividend of 50¢.

The Directors and Officers wish to express their appreciation to all employees for their continued efforts and loyalty through a very successful year.

Respectfully submitted,



A. E. VAN CLEAF,
President

March 22nd, 1974

SANGAMO COMPANY, LIMITED (Incorporated under the laws of Canada)

ASSETS

1973

1972

Current:

Cash and short-term notes	\$ 411,963	\$ 600,239
Accounts receivable	2,045,602	1,609,316
Inventories (note 1(a))		
Raw materials, work in process and finished parts	3,050,060	2,189,184
Finished goods	809,644	707,927
Prepaid expenses	64,117	29,271
	Total current assets	6,381,386
		5,135,937

Fixed (notes 1(b), 3, 4 and 7):

Land, at cost	231,528	231,528
Buildings, machinery and equipment, at cost	5,796,576	5,382,849
Less accumulated depreciation	6,028,104	5,614,377
	4,197,152	3,962,381
	1,830,952	1,651,996

Other:

Tender and performance bonds	255,875	205,875
Unamortized debenture discount	33,797	40,395
	\$8,502,010	\$7,034,203

(See accompanying notes to financial statements)

On behalf of the Board: **R. H. DAVIES**, Director
A. E. VAN CLIEAF, Director

BALANCE SHEET DECEMBER 31, 1973 (with comparative figures at December 31, 1972)

LIABILITIES

Current:

	1973	1972
Bank loans	\$ 150,000	—
Accounts payable and accrued charges	1,135,761	\$ 837,745
Income taxes payable	258,629	226,138
Payable to affiliated companies	135,619	125,583
Total current liabilities	1,680,009	1,189,466
6% Secured Sinking Fund Debentures, Series "A" due December 15, 1982 (note 4)	547,000	559,000
Deferred income taxes (notes 1(c) and 5)	289,000	217,000

Shareholders' equity:

Capital –		
Authorized:		
200,000 common shares of no par value		
Issued:		
181,212 common shares	505,135	505,135
Retained earnings	5,480,866	4,563,602
	5,986,001	5,068,737
	\$8,502,010	\$7,034,203

Statement of income YEAR ENDED DECEMBER 31, 1973

(with comparative figures for the year ended December 31, 1972)

	1973	1972
Net sales	\$13,966,382	\$11,294,301
Less:		
Cost of sales excluding depreciation	9,895,352	8,161,942
Selling, general and administrative expenses	1,394,565	1,238,474
Depreciation (note 1 (b))	273,353	241,664
Interest on funded debt	33,071	48,299
	11,596,341	9,690,379
Operating income	2,370,041	1,603,922
Other income	44,253	75,698
Income before income taxes and extraordinary item	2,414,294	1,679,620
Income taxes (note 5)	1,044,000	793,000
Income before extraordinary item	1,370,294	886,620
Extraordinary item:		
Profit on sale of land and buildings of Motor Division held for disposal, less applicable income taxes of \$19,000	—	36,765
Net income	\$ 1,370,294	\$ 923,385
Earnings per share:		
Income before extraordinary item	\$ - 7.56	\$ 4.89
Net income	\$ 7.56	\$ 5.09

(See accompanying notes to financial statements)

Statement of retained earnings YEAR ENDED DECEMBER 31, 1973

(with comparative figures for the year ended December 31, 1972)

Retained earnings, beginning of year	\$ 4,563,602	\$ 4,002,641
Net income	1,370,294	923,385
	5,933,896	4,926,026
Dividends paid	453,030	362,424
Retained earnings, end of year	\$ 5,480,866	\$ 4,563,602

(See accompanying notes to financial statements)

Statement of source and application of funds YEAR ENDED DECEMBER 31, 1973

(with comparative figures for the year ended December 31, 1972)

Source of funds:		
Operations	\$ 1,722,245	\$ 1,181,617
Proceeds on disposal of land and buildings of Motor Division	—	207,900
	1,722,245	1,389,517
Application of funds:		
Payment of dividends	453,030	362,424
Additions to fixed assets (net of disposals)	452,309	435,837
Redemption of long-term debt	12,000	355,000
Increase in tender and performance bonds	50,000	—
	967,339	1,153,261
Increase in working capital	754,906	236,256
Working capital, beginning of year	3,946,471	3,710,215
Working capital, end of year	\$ 4,701,377	\$ 3,946,471

(See accompanying notes to financial statements)

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1973

1. Summary of accounting policies

(a) Inventories are valued at standard cost, which approximates current average cost and is lower than market. Market is defined as replacement cost for raw materials and net realizable value

for work in process, finished parts and finished goods.

(b) Depreciation is calculated using the straight-line method applied to the estimated useful lives of assets, substantially as follows:

ASSET TYPE	ESTIMATED SERVICE LIFE	DEPRECIATION	
		1973	1972
Buildings	20 and 40 years	\$ 30,239	\$ 29,554
Machinery and equipment:			
General	10 and 15 years	133,915	99,336
Tools and dies	3 years	109,199	112,774
		\$273,353	\$241,664

(c) Deferred income taxes are provided on all non-permanent differences between reported and taxable income.

(d) Research and development expenditures are charged against income as incurred.

2. Legal suit

An action has been brought against the Company on behalf of the former employees of the Guelph plant for payment of the unfunded pension liability, at the date of termination of the plan, of \$650,000, plus damages of \$250,000, plus costs. In the opinion of counsel the Company should be successful in its defence against this action.

provides that this credit be reduced at the rate of 1 point a year to 1976 and remains at 6 percentage points thereafter. This tax credit legislation may be subject to review by Parliament at any time after March 31, 1974. The income tax provision includes deferred income taxes of \$72,000 (\$57,000 in 1972) which relates principally to the excess of tax depreciation over depreciation reflected in the financial statements.

3. Termination of sale agreement

In 1971, the Company accepted a conditional offer to sell the property it owns in Leaside. This agreement has been terminated by mutual agreement.

6. Remuneration of directors and officers

The following information is provided as required by Section 122.2 of the Canada Corporations Act:

(a) Remuneration paid to seven directors, as directors, totalled \$7,500 in 1973 and \$7,925 in 1972 for eight directors;
 (b) Remuneration paid to six officers, as officers, totalled \$201,738 in 1973 and \$204,220 in 1972 for seven officers;
 (c) One officer of the Company is also a director.

4. Sinking Fund Debentures

As at December 31, 1973 the Company had delivered to the trustee \$628,000 of 6% Secured Sinking Fund Debentures in excess of the sinking fund requirements to date. The outstanding balance of \$547,000 is due at maturity.

7. Subsequent event

Subsequent to the year-end, the Company sold for cash lands it owned in Scarborough for a profit of approximately \$528,000.

AUDITORS' REPORT

To the Shareholders of Sangamo Company, Limited:

We have examined the balance sheet of Sangamo Company, Limited at December 31, 1973 and the related statements of income, retained earnings and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of Sangamo Company, Limited at December 31, 1973 and the results of its operations and the source and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Young, Clarkson, Gordon & Co.
 Chartered Accountants
 Toronto, Canada, February 8, 1974.

5. Income taxes

Income taxes have been reduced by a federal manufacturing and processing credit which effectively reduced the 1973 federal income tax rate by 9 percentage points. Present legislation

DIRECTORS

R. H. DAVIES

President

Sangamo Electric Company

Chairman of the Board

Sangamo Company, Limited

C. H. LANPHIER

Chairman of the Board

Sangamo Electric Company

J. A. McDougald

President and Chairman of the Board

Argus Corporation Limited

ANDRÉ MONAST, Q.C.

Partner

St-Laurent, Monast, Desmeules & Walters

J. M. TORY, Q.C.

Partner

Tory, Tory, DesLauriers and Binnington

C. E. VANCIL

Vice-President

Sangamo Electric Company

A. E. VAN CLIEAF

President

Sangamo Company, Limited

Vice-President and General Manager

Power Equipment Division

Sangamo Electric Company

OFFICERS

A. E. VAN CLIEAF, President *

W. B. BALL, Vice-President, Sales

V. E. DICKSON, Vice-President, Engineering

P. GREIG, Vice-President, Marketing

J. LOGAN, Vice-President & Secretary-Treasurer

M. R. SABISTON, Vice-President & General Manager *

* MR. M. R. SABISTON, Vice-President, was appointed General Manager of the Company in July 1973.

* MR. A. E. VAN CLIEAF has been elected Vice-President of Sangamo Electric Company (U.S.A.) and is General Manager of its Power Equipment Division. Mr. Van Clieaf also remains President of Sangamo Company, Limited.

SHARES LISTED

The shares of the Company are listed on the Canadian Stock Exchange, Montreal, Quebec. (After January 1, 1974, they will be listed on the Montreal Stock Exchange, Montreal, Quebec) Transfers of shares at the Head Office of the Company, Toronto.

ANNUAL MEETING

Annual Meeting of the Shareholders is to be held on April 25th, 1974, at the Head Office of the Company, 215 Laird Drive, Toronto, Ontario M4G 3X1

SANGAMO

Head Office: 215 LAIRD DRIVE, TORONTO, CANADA, M4G 3X1
Sales Offices: Vancouver, Calgary, Winnipeg, Thunder Bay, Montreal, Halifax, Saint John, N.B., St. John's, Nfld.

